

DISC DISCUSSION

*7000 Disc users
out of 25,000 exporters*

What is DISC

- o Domestic: International Sales Corporation (DISC) a special corporation used to shelter export income from taxation.
- o Often only paper corporation, no employees or real business activity.
- o Special rules permit favorable allocation of profits to DISC and favorable tax treatment of those profits.
- o Part of tax code since 1971.

What are problems

- o DISC focus of international dispute in General Agreement on Tariffs and Trade (GATT). Our GATT trading partners have agreed that DISC is illegal under GATT rules.
- o Recognizing the inevitability of a formal GATT ruling that DISC is illegal, the U.S. has indicated it will propose domestic legislation that will "address the concerns of its trading partners."
- o Export incentive, such as DISC, causes the U.S. to both export and import more. Jobs are not increased. Steel, autos, other industries facing import competition are hurt. DISC costs \$1.5 billion annually and results in no net benefit to the economy.

-2-

Options

- o Most of publicly discussed DISC alternatives are GATT illegal.
- o GATT legal tax alternative would encourage use of tax havens; require U.S. business to locate capital, employ labor outside the United States.
- o Flexible, reactive non-tax alternative could be aimed at particular offensive foreign practices. Has drawback, type of subsidy we have been trying to eliminate.
- o Phased repeal of DISC.